

Message Text

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ACTION AGR-08

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R 061100Z FEB 76

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 4183

INFO AMEMBASSY NEW DELHI

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DELHI FOR AGATT

STATE PASS USDA

EO 11652: /A

TAGS: ETRD, EAGR, CE

SUBJ: POTENTIAL FOR US WHEAT SALES TO SRI LANKA

REF: A) STATE 18682 B) COLOMBO 221 C) COLOMBO 429 (NOTAL)J

1. SUMMARY: FEB 2-3 DISCUSSION WITH SENIOR GOVERNMENT OF SRI LANKA (GSL) OFFICIALS DURING EMBASSY NEW DELHI AGATT VISIT SHOW GSL SERIOUSLY INTERESTED IN EW COMMERCIAL SOURCES OF WHEAT FLOUR AND FOR WHEAT IF PRICES AND CREDIT TERMS COMPETITIVE WITH TRADITIONAL SUPPLIERS. GSL FOOD COMMISSIONER (FOR FLOUR) IS CONTACTING AMERICAN GRAIN FIRMS WHILE GSL EMBASSY WASHINGTON HAS BEEN INSTRUCTED TO SEEK CCC CREDIT INFO FROM USDA. STATE FLOUR MILLING CORP (SFMC) WILL BE CALLING TENDERS FOR WHEAT LATER. IN RESPONSE REFTEL PARA 2 (A) WHEAT/WHEAT FLOUR DATA ARGE GIVEN THIS CABLE. CONCERNING GSL CREDIT WORTHINESS (REFTEL PARA 2 (B)) WE BELIEVE, BUT CANNOT ASSURE, THAT GSL CREDIT GOOD FOR FORSEEABLE FUTURE. WE REQUEST ADVICE SOONEST ON CCC CREDIT (FOR WHEAT AND/OR WHEAT FLOUR) AVAILABILITY, AMOUNT AND TERMS (SEE REF B). END SUMMARY.

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FLOUR) AVAILABILITY, AMOUNT AND TERMS (SEE REF B). END SUMMARY.

2. DURING FEB 2-3, EMBASSY NEW DELHI AGRICULTURAL ATTACHE JOHNSON AND WHEAT ASSOCIATES USA REP KANDHARI, ACCOMPANIED BY EMBASSY AND USAID OFFICERS, MET WITH, AMONG OTHERS, DEPUTY DIRECTOR, EXTERNAL RESOURCES DIVISION (ERD) (PLANNING MINISTRY); GOOD COMMISSIONER AND CHAIRMAN, STATE FLOUR MILLING CORP. TALKS SHOW CLEARLY THAT GSL INTERESTED IN NEW SOURCES FOR WHEAT FLOUR AND WHEAT IMPORTS IF PRICES AND CREDIT TERMS ARE COMPETITIVE WITH FRANCE, AUSTRALIA, AND OTHER COMMERCIAL SUPPLIERS GSL HAS USED LAST TWO-THREE YEARS.

3. CONCERNING AVAILABILITY AND TERMS OF CCC CREDIT, ERD DEPUTY DIRECTOR SAID GSL EMBASSY WASHIMNWON HAD BEEN INSTRUCTED TO CONTACT USDA FOR INFO. JAMES LANERALLE, COMMERCIAL COUNSELOR, AND EVAN MELDER, COMMERCIAL ATTACHE, ARE EMBASSY OFFICERS CONCERNED. AS OF FEB 6, ERD HAS NO RESPONSE. IF OFFERED, WE BELIEVE CCC CREDIT TERMS WOULD BE FULLY COMPETITIVE WITH THOSE GSL HAS OBTAINED FOR WHEAT AND FOR FLOUR FROM MAJOR RECENT SUPPLIERS. FOR 165,000 TONS FLOUR PURCHASED FROM FRANCE IN LATE 1974 FOR 1975, DELIVERY, TERMS WERE 8 PERCENT PLUS; PRINCIPLE AND INTEREST PAYABLE QUARTERLY OVER TWO YEARS. ACCORDING PRESS, AS CONFIRMED BY GSL OFFICIALS, ERD DIRECTOR WENT TO PARIS FEB 1 TO NEGOTIATE 50,000 TONS FLOUR UNDER SAME TERMS. FOR 90,000 TONS WHEAT AND FOR 100,000 TONS FLOUR PURCHASED FROM AUSTRALIA IN 1975 TERMS WERE 9 PERCENT INTEREST; 10 PERCENT FULL FOB PRICE DOWN PAYMENT, REMAINING 90 PERCENT PAYABLE QUARTERLY IN ONE YEAR.

4. IN RESPONSE TO REF A PARA 2 (B) QUERY ON GSL FINANCIAL CONDITION AND LIKELIHOOD OF DEBT RESCHEDULING, WE BELIEVE BUT OF COURSE CANNOT REPEAT CANNOT ASSURE, THAT GSL IS GOOD FOR FINANCIAL OBLIGATIONS FOR FORESEEABLE FUTURE. WE DO NOT BELIEVE DEBT RESCHEDULING IS BEING SERIOUSLY CONSIDERED BY GSL OR INTERNATIONAL FINANCIAL AGENCIES AS SOLUTION TO COUNTRY'S HEAVY FOREIGN EXCHANGE DEFICIT AND INCREASING DEBT BURDEN. HOWEVER, AS MSA LIMITED OFFICIAL USE

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DEVELOPING COUNTRY, GSL FACES INCREASING TRADE AND BALANCE OF PAYMENTS DEFICIT, AND GROWING DEBT BURDEN OF SHORTENING MATURITY STRUCTURE. ACCORDING RECENT IMF PUBLICATIONS (NOTE: CLASSIFIED IMF CONFIDENTIAL) PRESSURE ON OVERALL BALANCE OF PAYMENTS INCREASED SUBSTANTIALLY IN 1975 WHILE DEBT SERVICE RATIO WILL INCREASE FROM ABOUT 13 PERCENT IN 1974 TO ABOUT 19 PERCENT IN 1975. DURING LAST THREE YEARS MATURITY STRUCTURE OF GSL OFFICIAL DEBT HAS SHORTENED

SIGNIFICANTLY DUE TO HEAVY DEPENDENCE ON SUPPLIERS AND SHORT TERM CREDIT, ESPECIALLY FOR FOOD AND PETROLEUM. ALTHOUGH INTERNATIONAL FINANCIAL AGENCIES CONCLUSIONS ON GSL FINANCIAL CONDITION ARE GRIM, TO OUR KNOWLEDGE THEY DO NOT INCLUDE ANY PROBABILITY OF DEFAULT OR NECESSITY FOR DEBT RESCHEDULING. THEY DO DESCRIBE RECENT POSITIVE CHANGES IN GSL ECONOMIC POLICY IN DIRECTION OF INCREASED INVESTMENT, PRODUCTION AND EMPLOYMENT WHICH, IN TURN, SHOULD LEAD TO INCREASED FLOWS OF CONCESSIONAL BALANCE OF PAYMENTS SUPPORT AND CAPITAL ASSISTANCE. IN ADDITION, GSL PLANNING MINISTRY (WHICH MANAGES FOREIGN EXCHANGE BUDGET) AND CEYLON CENTRAL BANK ARE REGARDED BY FOREIGN INCLUDING AMERICAN PRIVATE BANKS AND INTERNATIONAL FINANCIAL AGENCIES AS CAREFUL AND PRUDENT MANAGERS OF VERY SCARCE RESOURCES.

5. IN RESPONSE TO AID WASHINGTON CIRCULAR REQUEST, WE WILL BE SENDING DETAILED BALANCE OF PAYMENTS DATA WEEK OF FEB 9. IMF AND IBRD HAVE RECENTLY BEEN IN CLOSE CONSULTATION WITH GSL ON OVERALL FINANCIAL SITUATION AND PROSPECTS. POSSIBLY FURTHER COMMENT IS AVAILABLE FROM THOSE ORGANIZATIONS.

6. CONCERNING WHEAT IMPORTED FOR MILLING IN SRI LANKA, AUSTRALIA HAS BEEN MAIN RECENT SUPPLIER. IN 1975, GSL PURCHASED 90,000 TONS AT A\$151 FOB. IN LATE 75 THEY RECEIVED 20,000 TONS WHEAT FROM FRANCE AS GIFT OF WHICH 10,000 TONS BEING CARRIED OVER TO 1976. FOR 76 THEY HAVE CONTRACTED FOR 37,000 TONS FROM AUSTRALIA, PRICE UNAVAILABLE, PRESUMABLY ON SAME CREDIT TERMS. SFMC CHAIRMAN BELIEVES TOTAL 76 REQUIREMENT WILL BE ABOUT 125,000 TONS. THUS 47,000 TONS IS COVERED WHICH WILL LIMITED OFFICIAL USE

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CARRY MILL TO ABOUT APRIL, LEAVING ABOUT 75,000 TONS WHEAT TO BE PURCHASED. ACCORDING SFMC CHAIRMAN, PRESENT AUSTRALIAN WHEAT BOARD QUOTE IS A\$115 PER TON FOB FOR ASW WHEAT PLUS US\$19.50 FREIGHT. SFMC REGARDS THIS AS TOO HIGH AND PLANS TO CALL FOR TENDERS FOR WHEAT IN NEAR FUTURE. IF COMPETITIVE, THEY WOULD PREFER NORTH AMERICAN WHEATS TO THOSE FROM EUROPE.

7. WITH RESPECT TO FLOUR, NOW THAT PL 480 TITLE I 100,000 TONS ASSURED, GSL WILL NEED TO PURCHASE ABOUT 100,000 TONS COMMERCIALY BEYOND SUPPLIERS NOW ARRANGED OR UNDER NEGOTIATION (SEE FOLLOWING TABLES). ON FEB 1, PRESS ANNOUNCED THAT GSL WOULD PURCHASE 50,000 TONS FLOUR FROM FRANCE AT FF 1,014 (US\$126 AT US\$1 EQUALS FF 4.47). ERD CONFIRMS THIS BUTY SAYS FRENCH HAVE REDUCED

PRICE. IN LATE JAN GSL FOOD COMMISSIONER CONTRACTED
SEVERAL AMERICAN FLOUR EXPORTERS, REQUESTING QUOTATIONS AND TERMS.

8. IN RESPONSE REF A PARA 3 (A):

1975 WHEAT FLOUR IMPORTS:

1. FRANCE 165,000 2 YEAR CREDIT AT 8.6 PERCENT
2. MITSUI VIA SINGAPORE 31,500 COMMERCIAL CREDIT
3. AUSTRALIA 100,000 (53,000 ARRIVED 75; BAL 47,000 TO ARRIVE 76)
4. USA (TITLE I) 101,500
5. EEC 29,614 GIFT
6. ITALY 6,000 GIFT
7. AUSTRALIA 21,590 GIFT
8. UNITED NATIONS 20,000 GIFT
9. CANADA 8,359 GIFT

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10. SWEDEN 7,796 GIFT
 11. FRANCE 5,298 GIFT
 12. FRG 5,200 GIFT
- TOTAL 501857

1976 - WHEAT FLOUR IMPORT PROJECTIONS

JAN 1, 1976 96,000 OPENING STOCKS

47,000 AUSTRALIA: BAL FROM 75

100,000 USA (TITLE I)

27,500 COMMITTED GIFTS

50,000 FRANCE - COMMERCIAL PURCHASE 1 YEAR CREDIT

10,000 BELGIUM - COMMERCIAL PURCHASE, 1 YR CREDIT

100,000 OTHER COMMERCIAL SOURCES NOT YET DETERMINED

120,000 DOMESTIC PRODUCTION (MAXIMUM)

550,500

480,000 UTILIZATION

70,000 CLOSING STOCKS DEC 31, 76

9. COMMENT: RELATIVE SHORT TERM OF WHEAT SUPPLIERS IN
PIPE LINE MEANS GSL MUST ACT SOON TO NEGOTIATE ADDITIONAL
IMPORTS. CHAIRMAN, SFMC SAID TENDERS WILL BE ISSUED ON
A SELECTIVE BASIS IN NEAR FUTURE AND WILL INCOUDE US
SUPPLIERS. HOWEVER, EVEN IF US BIDS PROVE ATTRACTIVE
AND COMPETITIVE, DECISION CONTINGENT UPON CCC CREDIT.
WE BELIEVE US HAS CHANCE HERE TO GAIN COMMERCIAL ENTRY
INTO SRI LANKA MARKET FOR WHEAT, IF NOT WHEAT FLOUR. WE
BELIEVE THAT ONCE FOOTHOLD OBTAINED, WE STAND EXCELLENT
CHANCE OF GAINING LARGER SHARE AS MILLING PRODUCTION IS
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EXPANDED AND SRI LANKA BECOMES FAMILIAR WITH QUALITY US
WHEATS WITH WHICH IT NOW UNFAMILIAR. IN CY 76 A RANGE
OF 25 TO 50,000 MT IS BEST POSSIBILITY. WE REQUEST ADVICE
SOONEST ON CCR CREDIT FOR WHAT AND/OR
FLOUR. WE APPRECIATE ATUHN SON/KANDHARI VISIT WHICH WAS TIMELY
AND DIVSEFUL.
VAN HOLLEN

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